



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Tulip Siddiq MP  
House of Commons  
London  
SW1A 0AA

2<sup>nd</sup> December 2022

Dear Tulip,

### **Financial Services and Markets Bill – questions raised at Committee Stage**

Thank you for your contributions during the Committee stage of the Financial Services and Markets Bill. During the debate, I committed to respond in writing on some matters you raised. These were the UK's record on Sustainable Finance, the Payment Systems Regulator (PSR)'s amended sustainable growth principle, implementation of the measures on the wholesale cash distribution, the Bank of England's oversight of digital settlement asset service providers, and the legislative framework for credit unions. I refer to clauses using their updated numbers, reflecting the amendments made by the Committee.

### **Government approach to sustainable finance**

The government's ambition is for the UK to be the best place in the world for sustainable finance. The market for sustainable finance is growing very rapidly and HM Treasury's work in this area:

- supports UK competitiveness by helping the financial services sector capture the opportunity from this growing market;
- ensures the market is well-regulated and protects UK consumers from harms like greenwashing;
- and helps to direct private sector financing to fund the UK's energy security and transition to net zero.

During the debate, you specifically raised evidence given by William Wright, Managing Director of the New Financial think tank, comparing the records of the capital markets of the UK and the EU in relation to green finance. As Mr Wright acknowledged in his evidence, there are different ways of measuring a market's levels of green finance and there is a strong case for London being considered as the leading global hub. As I mentioned in the debates, the UK has been ranked first in the world, for a third consecutive time, in the [Global Green Finance Index](#)

published by Z/Yen. This rating has been attributed to UK government action on sustainable finance.

The methodology for the index includes both instrumental factors and assessments from practitioners around the world. London's role as a global hub for sustainable finance means that there is a strong ecosystem for UK firms to raise finance to decarbonise, and also for any overseas companies, individuals and states that wish to raise finance in the UK for their transition.

The government also recognises that greenwashing is an issue in financial markets and that ESG ratings and labels provided by different companies can differ significantly. This is why useful and accurate disclosure is essential in ensuring the development of sustainable finance. The UK was the first country in the world to commit to mandatory reporting aligned with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). These requirements have now been introduced by the [Financial Conduct Authority](#), the [Department for Business, Energy and Industrial Strategy](#) (BEIS) and the [Department for Work and Pensions](#) (DWP).

In [Greening Finance: A Roadmap to Sustainable Investing](#) published in October 2021 we set out our approach to going beyond TCFD with Sustainability Disclosure Requirements (SDR). These have already been advanced by the FCA who recently launched their consultation on Sustainability Disclosure Requirements (SDR) and Investment labels ([CP22/20](#)).

The UK has also led the mainstreaming of international standards on sustainable finance. The UK was the first country to publicly welcome the work of the International Financial Reporting Standards (IFRS) Foundation to create a global sustainability reporting standard. In June 2021, the government utilised its presidency to facilitate [agreement](#) by G7 Finance Ministers and Central Bank Governors to support this work.

We have delivered on our commitment from COP26 to move towards mandatory transition plan disclosures. Since then, Financial Conduct Authority (FCA) rules for asset managers, owners and listed companies have been updated to require disclosure of information in relation to climate transition plans (see Annex 1 of PS21/24 for asset managers, PS21/23 for listed companies). These rules came into force in January this year. We also launched the Transition Plan Taskforce (TPT) in May 2022. At COP27 the TPT launched its [consultation](#) on best practice recommendations, framework and guidance for firm-level transition plans.

The purpose of sustainability disclosures includes protecting consumers, supporting the integrity of markets and promoting fair competition, as well as supporting the transition to net zero. As you will know, since 2000, the UK has decarbonised at the fastest rate in the G20. We lead on the development of several low carbon technologies – notably offshore wind, carbon capture, and hydrogen – as well as green finance.

To deliver on this economic opportunity for UK households, we must ensure the UK continues to be an attractive place to invest. We have been successful to date, with £24bn of new investment committed last year across certain net zero sectors, according to the [Bloomberg NEF Energy Transition Investment Trends report 2022](#). The policies we have already [committed](#) to generate up to £100 billion of private investment by 2030. The government has also raised more than £20 billion through green gilt transactions and the NS&I Green Savings Bonds since September 2021.

To provide assurance of the commitment of this government to reach net zero greenhouse gas emissions by 2050 – as set out in section 1 of the Climate Change Act 2008 and to sustain our leadership in sustainable finance, the Bill contains a new regulatory principle for the FCA and the Prudential Regulation Authority (PRA) to contribute towards achieving compliance with this net zero emissions target.

### **Implementation of the sustainable growth principle**

During the debate on clause 46 and Schedule 7, you asked how the Payment Systems Regulator (PSR) would take account of the UK's net zero emissions target and how it would be required to report on its performance against the regulatory principle on sustainable growth, set out in section 53 of the Financial Services (Banking Reform) Act 2013 and amended by this Bill. As I explained, this issue is not unique to the PSR, as the FCA, the PRA and the Bank of England in its regulation of certain financial market infrastructure, will all have the target reflected in their regulatory principles as a result of the Bill.

The regulators must consider the regulatory principles when discharging their general functions. In the case of the PSR specifically, it already has a sustainable growth principle, which requires it to consider the desirability of sustainable growth in the UK economy in the medium or long term. This principle will be maintained, and the net zero emissions target will be incorporated into it through Schedule 7 of the Bill. This will be done in a way that ensures that the achievement of the net zero target should be understood as being only one element of the sustainable growth principle.

Regarding reporting requirements, Schedule 4 of the Financial Services (Banking Reform) Act 2013 sets out that the PSR is subject to a statutory requirement to publish an Annual Report in relation to the discharge of its functions. In discharging its functions, the PSR must have regard to, among other things, its regulatory principles, including its sustainable growth principle.

## Wholesale Cash Distribution

Clause 49 gives the Bank of England powers to oversee the wholesale cash distribution system to ensure it resilient and sustainable and can continue to effectively support access to cash into the future

You asked how industry will be consulted on the fees charged to cover the operation of the wholesale cash distribution regime and the penalties levied for non-compliance with the regime. Later this year, the Bank of England will launch its consultation on its regulatory approach for the regime. This will include its proposed approach to fees and penalties. Following this consultation and the commencement of the provisions within the Bill, HM Treasury will lay a Statutory Instrument before Parliament setting out the scale of fees as required under section 206Z(3).

You also asked how HM Treasury will engage with the Bank of England when considering entities to be designated under the regime. As required by the Bill, HM Treasury will consult the Bank before any entity is designated. The Bank will also be able to use its information gathering powers under the Bill to request information from entities to inform HM Treasury's decisions. This applies for designations under both parts of the regime; for market oversight and prudential regulation.

## Credit union common bond and register of members

As we discussed in Committee, the Bill expands the range of products and services that credit unions can offer their members. You asked why Clause 65 and Schedule 14 do not relax the 'same-household' requirement of the common bond for family members of certain credit union members, and why the Bill does not restrict access to the register of members.

The government has engaged extensively with the credit union sector in Great Britain to understand their priorities for change, and the Bill reflects this. Clause 65 and Schedule 14 directly deliver on the sector's interests by allowing credit unions in Great Britain to offer a wider range of products and services. When the Association of British Credit Unions Limited consulted the sector in Great Britain in 2019, it found that these are the additional products and services that credit unions wanted to be able to offer to their members.

HM Treasury has had recent discussions with some credit unions to discuss further challenges and considerations for the sector, including on your points raised around 'same-household' requirement of the common bond for family members of certain credit union members.

The common bond is a key part of the credit union legal structure and an important foundation of the credit union ethos. Before taking any action, the

government would need to consider the implications of common bond reform on regulatory exemptions and if this would be appropriate for all credit unions.

The government is happy to continue to receive representations over common bond reform and welcomes further dialogue on any issues important to the sector. We want to ensure that legislation supports the credit union sector to grow and we will engage with stakeholders so that any future change is backed up by clear evidence.

### Digital settlement assets and financial stability

Finally, you asked how HM Treasury will consult the Bank of England when considering whether a payment system using digital settlement assets or a digital settlement asset service provider is likely to present a risk to financial stability and should therefore be considered for recognition as a systemic payment system.

As is already the case for other systemic payment systems, HM Treasury must consult the Bank of England prior to making a recognition order for a payment system. The recognition criteria which HM Treasury must have regard to when making the order are set out in section 185 of Part 5 of the Banking Act 2009. HM Treasury must be satisfied that a system's potential failure may cause disruption to the stability of the financial system or have serious consequences for businesses and other interests throughout UK.

You also raised important points about ensuring that the Bank of England has the expertise it needs to have effective oversight of the operators of a new digital settlement asset or recognised payment system. The government agrees that it is crucial that the regulators have the right expertise and capacity to effectively oversee new regulated systems and service providers. Ultimately, the resourcing of its supervisory function is a matter for the independent Bank of England, and this Bill enhances the existing mechanisms for Parliament to oversee the work of the regulators, and ensure that they are carrying out their functions effectively.

I hope this letter is helpful in answering the matters you raised in the debate. I look forward to further engagement with you on the Financial Services and Markets Bill. I am copying this letter to all members of the Public Bill Committee, and depositing a copy of this letter in the Library of the House.

Yours sincerely,

A handwritten signature in blue ink that reads "Andrew Griffith". The signature is written in a cursive, flowing style.

ANDREW GRIFFITH MP